

# ANTITRUST LAW IN THE COMMON MARKET WITH SPECIAL REFERENCE TO INDUSTRIAL PROPERTY AGREEMENTS

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It is proposed in this paper to discuss only the incidence of the Rules Governing Competition of the Treaty of Rome,<sup>1</sup> and the implementing Regulations, on industrial property. To this end, it is necessary to first view the policies of the Common Market in the context of which the Treaty provisions were adopted and are to be interpreted; then to give a brief analysis of the provisions in question; and lastly, to suggest their application to industrial property agreements and the procedure established by the Regulations.

Part One of the Treaty, which establishes the governing principles of and for the Community, specifies in article 3 the principal activities of the Community for the accomplishment of its task and lists, in a catalog of eleven programmatic items, the following two:

- (f) the establishment of a system which safeguards the competition within the Common Market against adulterations; . . .
- (h) the harmonization of the provisions of national laws to the extent required for the orderly functioning of the Common Market; . . .

The broad terms of these provisions make it clear that one of the basic objectives of the Common Market is the achievement of a market order which is free from unduly restrictive practices whether imposed by government or initiated by private action.

In the six countries of the Common Market, national antitrust legislation was certainly not uniform. Indeed, only Germany, where the Act of 1957 against Restrictions of Competition certainly exhibits American influence, has a complete antitrust law. The Dutch legislation is an instrument to regulate economic trends, of neutral rather than prohibitive character. The French law prohibits particular practices only, such as price fixing, refusal to sell or to perform a service, discriminatory practices and ententes which prevent free competition or involve illegal speculation. There was no Belgian antitrust law, and the recent legislation enacted in 1960 looks only to abuses of

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<sup>1</sup> Treaty establishing the European Economic Community, signed March 25, 1957, effective January 1, 1958. Part Three, title I, chapter 1 of the Treaty contains arts. 85 to 94 and is entitled "Rules Governing Competition."

monopolistic market position. No legislation on the subject exists in Luxemburg, and a law is only now in preparation in Italy.<sup>2</sup>

There has been no publication of the actual minutes or drafts of the Treaty provisions, which led to their adoption, to guide us in understanding their objectives. But it is clear that the framers of the Treaty had in mind that they must have a common supra-national law on restrictions of competition. Their object was to establish a single unified market analogous to a national market, and to accomplish an interpenetration of productive factors and free movement of goods.

This appeared so important that the Treaty in this domain did not provide, as in other aspects of community life, for mere basic principles leaving the national legislator to resolve their application by national law, nor for mere harmonization of the law through separate arrangements. Instead, a full body of antitrust law was included in the Treaty, and its implementation and execution were largely confided to the Community institutions. And this law is directed against restrictions of competition by private parties as well as by the Member States. The latter concern dumping practices, aids granted by States which threaten to distort competition, and fiscal provisions of internal changes, drawbacks or turn-over taxes practiced by a State and adversely affecting production of another State.<sup>3</sup>

With regard to private practices, the Treaty contains the very important provisions of articles 85 and 86 which may be said to constitute the antitrust law of the Community. This law must be viewed in the context of the basic concept of the Common Market. It embodies rules of behavior that would allow enterprises and consumers to respond fully and on equal terms to the new economic incentives offered by the Common Market. Unimpeded and undistorted competition is an instrument aiming at the integration of the markets of the Six. This policy is even more necessary in view of the objective of the

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<sup>2</sup> See Riesenfeld, "The Protection of Competition" in II American Enterprise in the European Common Market—A Legal Profile 197. On the Belgian law of 1960, see del Marmol, *La Protection contre les abus de puissance économique en droit belge*, (Liege 1960); on the German law, see Shapiro, "The German Law against Restrictions of Competition," 62 Colum. L. Rev. 1, 201; on the French and Dutch law, see "Guide to Legislation on Restrictive Business Practices," European Productivity Agency, O.E.E.C., Vols. I and II.

<sup>3</sup> Reference also may be made to art. 37 of the Treaty concerning State monopolies of a commercial character with respect to which the Member States undertake to cease all discrimination between nationals of Member States, in regard to conditions of supply and marketing of goods, at the expiration of the transitional period. The Commission has issued recommendations to France and Italy for the gradual adjustment of the State monopolies on tobacco and matches. See Journal Officiel des Communautés Européennes, June 23, 1962, at 1500/62.

Community to encourage concentration of European industries in order to realize the large-scale production at low cost which is made possible by the creation of the Common Market.

The antitrust law of the Community is also to be viewed as an essential means of creating a genuine European economic union. It is in this context that the Commission has taken action to harmonize and unify the law in many directions. It has taken the initiative for the creation of Common Market patent, trademark and design laws through Conventions between the Six. A community-wide Convention on bankruptcy is in preparation. Work has already been done toward standardization of the system of awarding public contracts to avoid any discrimination against firms of Member States. Harmonization of legislation is being prepared with respect to quality, composition, packaging and labelling of foodstuffs to eliminate variations which may prevent or impede expansion across frontiers and cheaper mass production. A uniform company law for the Common Market and a common veterinary legislation are the subject of special working parties.

Last but not least, the Council of Ministers of the Common Market adopted, in December 1961, a general program for the suppression of restrictions to the "freedom of establishment" in the Common Market, which means that nationals of the six States exercising non-salaried professional activities—manufacturers, traders, craftsmen and men of liberal professions—may move freely, establish themselves and render services in any of the six States provided only they are nationals of any of such States.

It is this general framework against which the antitrust law of the European Economic Community is to be viewed.

#### ARTICLES 85 AND 86 OF THE TREATY

The substantive law of the Common Market on restrictions of competition resides in articles 85 and 86 of the Treaty of Rome.

Article 85 prohibits, as incompatible with the Common Market, any agreements between enterprises, any decisions by associations of enterprises, and any concerted practices, which meet a double test:

- (a) are apt to affect trade between the Member States; *and*
- (b) have as their object or result the prevention, restriction or distortion of competition within the Common Market.

With regard to the first test, English translations of the text use the word *likely* rather than *apt*. The latter is the correct translation of the French word in the text, *susceptibles*, or the German word *geeignet*. There has also been much discussion about the word *affect* of the

English translation which is a correct rendering of the original French term *affecter*, as well as of the German *beeinträchtigen*. Only the Dutch and Italian texts use terms which carry an implication of "adverse" effect on trade leading to an interpretation permitting restraints having a "good effect" on trade between the Member States.<sup>4</sup> It is believed that the Commission is not disposed to see any such distinction. It considers the word *affect* as imparting a reference to any restraint that bears on trade between Member States, as distinct from trade within a Member State. In other words, the test has the same meaning as the commerce clause in American constitutional law.

It is important to note that the Treaty does not propose to replace, or substitute for, national law on restraints of competition within the confines of each Member State. It deals only with restraints which affect more than national trade. Thus, national legislation on restrictions of competition regulating trade within the territory of each Member State remains unaffected.

With regard to the second test, it will be noted that it is not necessary that a restraint of competition actually occurred. It is sufficient that an agreement aims at restraining competition. It will also be noted that there is no qualification of unreasonableness nor that the restraint should relate to a substantial part of the trade of the goods concerned. In other words, no rule of reason is implied or may be read into the prohibitions of article 85(1).

Article 85 speaks of "enterprises" and no distinction is made as to whether the enterprises are located in the Common Market or not. Therefore, an agreement<sup>5</sup> between an American enterprise and an enterprise located in the Common Market, or an agreement between two enterprises both located outside the Common Market, are equally included in the prohibition of article 85(1) so long as they meet its double test. The "affectation doctrine" of the Sherman Act is thus recognized in the Treaty and influence of agreements between enterprises located in foreign States may affect trade in the Common Market.

Article 85(1) also proceeds by way of illustration to list the kinds of agreements which are deemed prohibited. These are:

- (a) the direct or indirect fixing of purchase or selling prices or of any other trading conditions;

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<sup>4</sup> This position was maintained by Advocate General Maurice Lagrange in his submission of conclusions to the Court of Justice of the European Communities in the *Bosch* case. See Thompson, "The Bosch Case," in *Int'l & Comp. L.Q.*, Vol. II, Part 3, 4th series, July 1962, at 721, 733.

<sup>5</sup> Hereafter, reference is made to "agreements" for purposes of simplification without also mentioning "decisions of associations" and "concerted practices."

- (b) the limitation or control of production, markets, technical development or investment;
- (c) market-sharing or the sharing of sources of supply;
- (d) the application to parties to transactions of unequal terms in respect of equivalent supplies, thereby placing them at a competitive disadvantage;
- (e) the subjecting of the conclusion of a contract to the acceptance by a party of additional supplies which, either by their nature or according to commercial usage, have no connection with the subject of such contract.

An exemption from the prohibition of article 85(1) of the Treaty may be granted under article 85(3) provided that certain positive and negative requirements are met. Thus, certain agreements, even though they restrain competition, will be allowed if it can be shown that they are reasonable.

The two positive requirements for the application of this rule of reason are:

- (a) that the agreements contribute to the improvement of the production or distribution of goods or to the promotion of technical or economic progress; and
- (b) that they reserve to users an equitable share in the profits resulting from such improvement of production or distribution or from the promotion of technical or economic progress;

and the two negative requirements are:

- (c) that they do not impose on the enterprises concerned any restrictions not indispensable to the attainment of the above objectives; and
- (d) that they do not enable such enterprises to eliminate competition in respect of a substantial proportion of the goods concerned.

These requirements and the application of article 85(3) will be considered fully hereinafter in discussing agreements relating to industrial property. Suffice it to say here that this paragraph constitutes a legislated rule of reason. The unqualified prohibitions of paragraph (1) are mitigated by the provisions of paragraph (3). The test of reasonableness under this paragraph applies throughout the length and breadth of article 85(1), so that there is no part of the prohibitions of article 85(1) which remains outside the scope of article 85(3) and constitutes conduct unlawful per se.

Agreements which are prohibited by article 85(1) of the Treaty,

and from which no exemption is granted under article 85(3), are null and void under article 85(2) of the Treaty.<sup>6</sup> It will be noted that article 85(2) speaks only of agreements between enterprises and decisions of associations as being null and void. It does not also refer to "concerted practices" since the latter do not constitute juridical acts.

The agreements which are thus declared null and void are the agreements which are prohibited by article 85(1), and this refers not to an entire contract between enterprises but to those agreements included in a contract which article 85(1) prohibits. Whether the nullity or voidance of a particular "agreement" in a contract entails nullity or voidance of the entire contract depends on the national law which is to be applied to the contract.<sup>7</sup>

As will be explained hereafter, the Commission of the EEC, in its decision condemning a restraint, holds only that it is prohibited by article 85(1) and is not justified under article 85(3). The question of the nullity of the contract as a whole is a question of the national law of the country before which this issue arises.

This is then the general structure of the law under article 85 of the Treaty.

Article 86 of the Treaty prohibits abusive exploitation of a dominant position by one or more enterprises. In order that the prohibition may be applicable, three conditions must be fulfilled:

- (a) the enterprise or enterprises concerned must occupy a dominant position within the Common Market or within a substantial part thereof;
- (b) the enterprise or enterprises must make an abusive use of such position;
- (c) such abusive use must have an effect on trade between Member States.

How great a degree of dominance is required for the existence of a dominating position is not defined in article 86. Since the concept probably comes from the German Act Against Restraints of Competition, it is not unlikely that the Commission will follow the definition of section 22 of such Act. Under this, an enterprise has a dominating position when it is "without competitors or not subject to substantial competition in a certain type of goods or services." Two or more enterprises are considered "market dominating" when no substantial

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<sup>6</sup> Indeed, art. 85(2) speaks of agreements "prohibited pursuant to this Article," meaning paragraph (1) as well as paragraph (3).

<sup>7</sup> Such law determines how far a contract as a whole may remain valid and effective notwithstanding the nullity of a particular clause. Ordinarily, the issue will turn on the question whether the particular clause is of the essence of the contract.

competition exists in fact between them and they are not subject to substantial outside competition. Thus, the size of the quantitative share of the market is not a test but the territorial share is, since article 86 requires that domination extend to a substantial part of the Common Market. The basic element of inter-State affectation is always present so that the domination must affect more than the territory of a Member State.

Article 86 does not require that the enterprise or enterprises exercising a dominating position be located within the Common Market. A foreign enterprise may exercise such position in the Common Market and be subject to the provisions of this article.

It will be noted that the Treaty does not attack domination, as such, and the problems raised in the United States against monopoly or oligopoly are not present here. Many monopolies arise out of acquisition or merger and these are sanctioned by the Treaty.

What is condemned is abuse of a dominating position. Article 86 defines abuse by giving illustrated examples, such as:

- (a) The imposition of inequitable purchase or selling prices or inequitable trading conditions;
- (b) The limitation of production, market and technical development, to the prejudice of consumers;
- (c) Discriminating practices placing parties at a competitive disadvantage;
- (d) Making the conclusion of contracts dependent upon the purchase by the other party of goods not related in kind or trade custom.

These are very much like the abuses referred to in section 22(4) of the German Act. There has been no decision in Germany under this section to throw full light on the meaning of abuse of dominating position. On the other hand, these illustrated examples find their counterpart in article 85 of the Treaty and the interpretation of both may be alike.<sup>8</sup>

Since article 86 prohibits only abuse, naturally, it does not provide for any exemption as article 85 does in paragraph 3. It may be expected, however, that the Commission will be likely to strike down price-fixing, discrimination and tie-in agreements as well as exclusive representation and exclusive dealing when a dominating enterprise is

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<sup>8</sup> Only the case of "market-sharing or the sharing of sources of supply" of article 85 is not listed in article 86 since, obviously, this does not apply to a dominating enterprise. The other difference is that article 85 prohibits all direct or indirect fixing of prices or other trading conditions, whereas article 86 condemns imposition of *inequitable* prices and *inequitable* trading conditions, which is consonant to the concept of abuse.

a party, whereas it may excuse such, under article 85(3), when the enterprises concerned have no dominating position in the market.

With regard to both articles 85 and 86 of the Treaty, there was since 1959 considerable discussion as to whether their provisions were self-executing and immediately applicable law without the necessity of national legislation in the Member States to put them into effect. This question has now been authoritatively resolved by the Court of Justice of the Economic Communities in its decision of April 6, 1962, in the *Bosch* case.<sup>9</sup> This came up as a result of the question put to that court by the Court of Appeals of The Hague: "whether the prohibition to export imposed by Bosch to its customers and accepted by them under contract is null by virtue of article 85(2) of the Treaty insofar as export to the Netherlands was concerned." The question was referred to the Court of Justice under article 177 of the Treaty which provides that the court is competent to render a preliminary decision concerning the interpretation of the Treaty—in this case, article 85.

The court held that the provisions of the Treaty were in principle immediately applicable rules of law; but with regard to article 85(2), it ruled that a prohibited agreement in existence at the commencement of the Treaty was not ipso facto null as of the coming into effect of the Treaty on January 1, 1958. The court ruled that paragraphs one and three of this article were an indivisible whole, and that prior to the issue of Regulation No. 17 there was no procedure by which the Commission of the European Economic Community might pass on the question whether an agreement violating the principles of article 85(1) could be justified under article 85(3). No action had been taken with regard to such an agreement pursuant to the transitory procedures envisaged by articles 88 and 89 respectively for State authorities and the Commission, prior to the coming into effect of the Regulations.

An important question arising under the Treaty with respect to both articles 85 and 86 is the meaning of the word *enterprise*. Is this a legal or an economic concept? This becomes relevant particularly under the Regulations, as will be seen, in connection with the provision of article 4(2)(ii)(b) which refers to agreements between two enterprises only, and also in the procedure on notification concerning the joining of enterprises in such notification. But it is particularly important in connection with the prohibitions of article 85(1) which speak of "agreements between enterprises" since it raises the question whether an agreement between a parent company and its subsidiary is to be deemed as being an agreement between two enterprises.

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<sup>9</sup> *Bosch and Van Rijn v. de Geus*, decision issued April 6, 1962. See *Journal Officiel des Communautés Européennes*, May 4, 1962; Thompson, *op. cit. supra* note 4.



One might have been inclined to distinguish between several situations: a parent and a wholly-owned subsidiary generally might be deemed one enterprise, since the subsidiary in such a case is in effect a branch or division of the parent economically speaking, and could not, as a matter of fact, be in competition with the parent. Often such subsidiaries are organized for the purpose of promoting, servicing or developing the sale of the parent company's products. On the other hand, if the subsidiary is not wholly-owned but merely controlled by a majority of stock interest, it should be possible to consider whether in fact it has competitive interests with the parent; or whether there is a strong minority whose interests, from the point of view of competition, may not coincide with those of the majority shareholder; or whether the subsidiary is able to make independent business decisions even though technically controlled by the parent. The writer's conversations with officials of the Commission revealed that the position of the Commission was not fixed on the interpretation of the word *enterprise* in the Rome Treaty.

However, the Court of Justice has dealt with the interpretation of the term in the Coal and Steel Community Treaty. In the latest decision of the Court of March 22, 1961,<sup>10</sup> the Court analyzed the concept of *enterprise* in such a decisive manner that, although the case involved the Coal and Steel Community Treaty, it appears unlikely that this Court will give a different interpretation to the term as used in the Rome Treaty. The Court said:

We must take a closer look at the concept of the enterprise. It presents itself as a unitary aggregate of personal, material and intangible factors, attributable to an independent juridical subject, pursuing over the long run a definite economic purpose. . . . The commonness of economic activity does not entail commonness in a legal sense, so long as the legal consequences of such activity are attributable to different legal subjects. . . . Such a change in the legal position occurs automatically with the creation of the new legal personality and it is irrelevant whether the economic relations which existed before the change remain the same. Viewed from this vantage point, the conditions for the existence of a legally autonomous enterprise indubitably exist even in the case of a legal person whose interests are closely tied to those of another legal subject and whose initiative is determined by externally originating guide lines.

#### REGULATIONS NOS. 17 AND 27

These two Regulations, the first by the Council of Ministers and the second by the Commission of the European Economic Community,

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<sup>10</sup> Wirtshaft und Wettbewerb 1962, No. 7-8.

have filled in the procedural gaps left in the formulation of articles 85 and 86 of the Treaty. It is important to recognize that these Regulations deal solely with the implementation of the Treaty clauses and not with substantive law.

Regulation No. 17<sup>11</sup> was issued by the Council under authority contained in article 87 of the Treaty, and Regulation No. 27<sup>12</sup> was issued by the Commission by virtue of article 24 of Regulation No. 17, and deals with the form, content, and other details of applications and notifications submitted to the Commission pursuant to articles 2, 3, 4 and 5 of the said Regulation.<sup>13</sup>

Contrary to the original draft of Regulation No. 17 as prepared by the Commission in 1960 (and submitted by the Council of Ministers to the Economic and Social Committee and the European Parliament for advice), the final text does not make it mandatory to notify the Commission of any restrictive arrangement violating the provisions of the Treaty. Instead, it provides for three things:

The first article of Regulation No. 17 states the principle that agreements referred to in article 85(1) and the abusive exploitation of a dominant position in the market in the sense of article 86 of the Treaty are prohibited, and no previous decision to that effect is necessary. This resolves the question of principle, just as the Court of Justice did in the *Bosch* case.

Article 2 of this Regulation provides for a negative declaration by the Commission, on the application of the interested enterprises, that it has no grounds to intervene in regard to a situation under article 85(1) or article 86. This is the so-called "negative clearance" of an agreement, to be discussed hereinafter.

Then articles 4 to 8 of Regulation No. 17 deal with the procedure of registration and effects of exempting agreements in application of article 85(3) of the Treaty. This registration is theoretically volun-

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<sup>11</sup> Published in the Official Journal of the European Communities on February 21, 1962, effective March 13, 1962.

<sup>12</sup> Published in the Official Journal of the European Communities on May 10, 1962, effective May 11, 1962.

<sup>13</sup> Mention should also be made here of Regulation No. 26 of the Council of Ministers dated April 4, 1962, and effective July 1, 1962 (Journal Officiel, April 20, 1962, at 933/62), in implementation of art. 42 of the Treaty. This article provides that the provisions on restriction of competition (arts. 85-94) shall apply to the production of and trade in agricultural products only to the extent determined by the Council of Ministers. Regulation No. 26 applies, to agreements relating to the production of or trade in agricultural products, the provisions of arts. 85 and 86 of the Treaty, subject only to some exceptions that may be authorized by the Commission, relating mainly to agreements between growers or associations of growers within the territory of a single Member State.

tary. Only those enterprises wishing to avail themselves of this procedure need notify their agreements. Practically, however, notification is essential. Because, as a condition precedent to claiming the exemption of an agreement under article 85(3) of the Treaty, notification has to be made. The Commission has exclusive jurisdiction, under article 9, to decide that an agreement prohibited by article 85(1) is exempted under article 85(3).

There is a distinction made between existing agreements and new agreements. The date which separates the two is the date of the coming into effect of Regulation No. 17, *i.e.*, March 13, 1962. Agreements concluded on or after that date which contain any restrictions repugnant to article 85(1) of the Treaty should, under article 4 of the Regulation, be notified to the Commission, if the interested enterprises desire to avail themselves of article 85(3). No time limit is given for such notification, but unless and until notification is made of such an agreement, no exemption under article 85(3) can be given. An agreement violating article 85(1) will be null and void up to the date of the notification, even though the Commission should subsequently grant it the exemption of article 85(3). In other words, the exemption will be retroactive only to the date of the notification. And the enterprises concerned may be subjected to the fines provided for in article 15 of the Regulation for the violation of the Treaty up to the date of the notification.

It will be noted that article 7 of Regulation No. 17 (to be considered hereafter) which permits validation of an agreement subject to amendment does not apply to new agreements, but only to those concluded prior to March 13, 1962.

Article 4 dispenses from notification certain classes of agreements, but since these classes are also dispensed from notification under article 5, they will be discussed as a distinct third category of agreements.

Existing agreements, *i.e.*, agreements concluded prior to March 13, 1962, are governed with respect to notification by article 5 of Regulation No. 17. If it is desired to seek the exemption of article 85(3) with respect to such agreements, notification was made necessary prior to August 1, 1962. This deadline has now been extended by a new Regulation No. 59 of the Council of Ministers<sup>14</sup> to November 1, 1962, with respect to all such agreements, and to February 1, 1963, with respect to agreements between two enterprises only.<sup>15</sup> The Commission

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<sup>14</sup> Published in the Journal Officiel on July 10, 1962, effective July 11, 1962.

<sup>15</sup> It is interesting to note that the further prolongation to February 1, 1963, with respect to two-party agreements was recommended by the European Parliament. See Journal Officiel, July 25, 1962, at 1805/62.

may either grant or refuse exemption of such an agreement under article 85(3).

If exemption is refused, the legal result is that the agreement is considered ipso facto null and void,<sup>16</sup> as falling under the prohibitions of article 85(1), and such nullity is retroactive to March 13, 1962, unless the Commission validates the agreement as a result of amendment under article 7(1) of the Regulation. If exemption is granted, such exemption will be retroactive to March 13, 1962, and this means, of course, under the *Bosch* decision, to the effective date of the agreement.

Exemption also means that no fines may be imposed for conduct under the agreement between the date of notification and the date of the Commission's decision, and prior to the date of notification if notification is made prior to the stated deadline.

On the other hand, failure to notify the agreement before the stated deadline, even though the Commission should exempt the agreement under article 85(3), will not cover the period between March 13, 1962, and the actual date of late notification. In other words, the decision of the Commission granting exemption under article 85(3) in such a case may have retroactive effect only to the date of such notification. Moreover, a fine may be imposed under article 15 for conduct under the agreement between March 13, 1962, and the date of the late notification.

At this point, the provisions of article 7 of Regulation No. 17 may be considered. They provide that an agreement concluded prior to March 13, 1962, and notified to the Commission prior to the stated deadline, with respect to which the Commission is not willing to grant the exemption of article 85(3) of the Treaty, may nevertheless receive this benefit if the enterprises concerned abandon or modify a restrictive clause to which exception is taken. The Commission then will fix the period to which the exemption applies. In other words, the Commission has the discretion to make the exemption retroactive to any date it chooses, which means a date prior to the amendment of the agreement.<sup>17</sup> But this provision cannot be invoked against enterprises which have not given their express assent to the notification of the agreement. It follows that an enterprise which is in doubt as to whether the Commission will grant exemption under article 85(3) to an existing agreement without amendment and who is anxious to assert

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<sup>16</sup> In the sense that the particular restrictive clauses are null and void, and this may bring about the nullity of the entire contract, see note 7 *supra*.

<sup>17</sup> This is a troublesome provision when considered with respect to article 85, since the Commission may thus be able to declare valid an agreement which prior to the amendment was null and void under such article.

such agreement against another enterprise party to the agreement should make sure that such other enterprise explicitly agrees to the notification of the agreement to the Commission.<sup>18</sup>

The third category of agreements envisaged by articles 4 and 5 of Regulation No. 17 are those which are dispensed from notification under paragraph 2 of article 4 and paragraph 2 of article 5. These agreements are excepted from the procedure of paragraph 1 of both articles which means that the exemption of article 85(3) of the Treaty may be claimed with respect to such agreements even though they are not notified as provided in such articles. This does not mean that these agreements are valid *ipso facto* under article 85(1) or that they are *ipso facto* exempted under article 85(3). As the Court of Justice said in the *Bosch* case, they are presumed valid unless a contrary decision is made by the Commission or by the appropriate national authorities when the issue arises.<sup>19</sup> It is because of this *presumption* of validity that the Regulation provides (articles 4 and 5) that they may be notified to the Commission, if the interested parties so desire.

Thus, even though such agreements are notified at any time after the fixed deadline for other agreements, the Commission's decision declaring these as exempt under article 85(3) of the Treaty will be retroactive not only to the date of notification but to the date when the conditions of article 85(3) are fulfilled. But if the Commission decides that such an agreement is not exempted from the prohibitions of the Treaty under article 85(3), then such an agreement will be declared null as of March 13, 1962, subject, however, to the provision of article 7(2) of the Regulation. This means that even though the Commission decides that it cannot grant the exemption, it may, if the agreement is amended, limit the prohibition to a period fixed by it provided that notification is made prior to January 1, 1964. Accordingly, no fine may be imposed for conduct under the agreement between the date of notification and the date of the Commission's decision,

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<sup>18</sup> It will be noted that article 7 speaks of enterprises "which have given their express consent to the notification," and this does not mean that they have formally joined in the notification. Under Regulation No. 27, notification may be made by one of the participating enterprises and it is only required that such enterprise inform the other participating enterprises that such notification is being made. If such other enterprises should merely inform the notifying enterprise that they agree to such notification, this would be sufficient for the purposes of article 7.

<sup>19</sup> In a lecture given before the Chamber of Commerce of Brussels (*Bulletin de la Chambre de Commerce de Bruxelles*, July 20, 1962, at 552) by Mr. Schumacher, Chief of the Directorate of Competition of the Commission of the EEC, it was pointed out that the dictum of the Court of Justice in the *Bosch* case with respect to these agreements, dispensed from notification, meant that their validity depends on the decision of the Commission in applying article 85(3) of the Treaty.

and prior to the date of notification provided that notification is made prior to January 1, 1964.

The category of agreements thus dispensed from notification by articles 4(2) and 5(2) of Regulation No. 17 includes certain classes of agreements, and for our purposes here, the important class is that of article 4(2)(ii)(b):

agreements to which two enterprises only participate and which have the sole effect

to impose upon the purchaser or the user of rights of industrial property—namely, patents, utility models, designs or trademarks—or upon the beneficiary of contracts involving the transfer or licensing of manufacturing processes or knowledge relative to the use and application of industrial techniques, limitations in the exercise of such rights.

This provision of Regulation No. 17 will be analyzed hereafter in discussing industrial property agreements.

Regulation No. 27 deals with the form, content and details of applications and notifications to the Commission. It provides particularly that every enterprise, party to an agreement, is authorized to file an application under article 2 or a notification under articles 4 and 5 of Regulation No. 17, and therefore it is not necessary that all participating enterprises join in the application or notification. It is only required that the applying or notifying enterprise must inform the other enterprise that it is filing the application or notification.

It is further provided that seven copies of the application or notification must be submitted, and this applies also to the documents attached, such as the agreement, which must be certified or conformed to the original. All papers must be in one of the official languages of the Community: French, German, Italian or Dutch.

An application or notification will be considered as being in order *only* if the prescribed forms are filed in conformity with Regulation No. 27 and within the term fixed. The purpose of the forms is to set out all of the information and data which the Commission requires in order to be able to pass upon the case.

Notification is not the only way by which the Commission obtains information on existing agreements or practices and with respect to which it has power to act. Regulation No. 17, in pursuance to the provisions of article 89 of the Treaty, which places on the Commission the duty to insure the application of the principles of articles 85 and 86, provides for the following:

- (a) Under article 3 the Commission may act, on request or *ex officio*, in finding infringement of article 85 or 86. *Ex officio*

action may be instigated by any person—a private informer—whether he has an interest in the matter or not. He may send information to the Commission about an alleged infringement. The Commission has provided that this may be done by a letter addressed to it which need not comply with any particular formalities. Such a person has no standing with the Commission and cannot insist that the Commission act.

- (b) “Any person who shows a justified interest” may file a request to the Commission complaining about an infringement of article 85 or 86. The complainant must set out the nature of his interest; that he considers an agreement to which he is a party as prohibited by article 85 and wishes it to be so declared by the Commission; that he is defendant in an action before a national court involving an agreement which he considers null and void; or that he feels his interests as a competitor are being adversely affected by a restrictive agreement.
- (c) Such a request may also be filed with the Commission by a Member State.
- (d) Under article 12, the Commission may decide to conduct a general inquiry if, in any sector of the economy, the trend of trade between Member States suggests that competition is being restricted or distorted within the Common Market. In conducting such inquiry, the Commission may require any enterprise or group of enterprises in the sector concerned to communicate to it all agreements which are exempted from notification under articles 4(2) and 5(2) of Regulation No. 17.

In any of these cases, if the Commission finds that there is infringement of either article 85 or 86 of the Treaty, it may do one of two things:

- (i) It may render a decision ordering the enterprise or enterprises concerned to put an end to the infringement. Such a decision is published and may be supplemented by the imposition of a fine up to \$1,000,000.00 and a daily penalty from \$50.00 to \$1,000.00 for each day that the Commission's order is disregarded; or
- (ii) It may address to the enterprise or enterprises concerned a “recommendation” designed to put an end to the infringement. This recommendation is not published and is not subject to appeal. Its purpose is to settle the matter amicably

and to induce the enterprises concerned to give up the infringement voluntarily.

It should be further pointed out that the Commission has tremendous powers of investigation itself (article 14) and it may also call upon the Member States to carry out investigations which the Commission considers necessary (article 13).

Thus, detection of wrongdoing is facilitated by a panoply of investigating procedures and powers under the Treaty and Regulations.

A question relating to investigation of agreements which may disturb enterprises is the publicity which may be attendant to it. Article 10 of Regulation No. 17 provides that the Commission shall transmit without delay to the competent authorities of the Member States copies of the requests, applications and notifications, together with copies of the most important documents which have been transmitted to it. This means that the Commission will transmit to such authorities:

- (a) any request sent to it under article 3 of the Regulation complaining that an enterprise is infringing article 85 or 86 of the Treaty;
- (b) any application under article 2 of the Regulation for a negative clearance of an agreement;
- (c) any notification of an agreement under article 4 or 5 of the Regulation.

The national authorities may submit their views to the Commission. In order to strengthen the cooperation of the Commission with the Member States, a Consultative Committee is provided for in article 10 of the Regulation, composed of competent officials representing the Member States. Presumably, each State, on receiving communication of (a), (b) or (c), will instruct its representative on the Consultative Committee to give the Commission its views. The Commission will call meetings of the Consultative Committee when it is ready with a preliminary draft of a decision. The Consultative Committee's opinion is only in the nature of advice to the Commission and is not binding upon it.

In view of this procedure, it is clear that the national authorities of the Member States, such as the German Cartel Office, will be fully informed on the agreements and other information and data supplied by an enterprise or gathered by the Commission. On the other hand, under article 19(3), when the Commission intends to give a negative clearance or to render a decision granting exemption under article 85(3), it "shall publish the essential content of the application or



notification, inviting all interested third parties to submit their observations within a time limit." "Essential content" of the application or notification does not include publication of the agreement nor even of the data and facts advanced by the enterprise concerned in support of its application or notification. Indeed, the above provision of article 19(3) goes on to say:

Publication shall respect the justified interest of the enterprises that their business secrets shall not be divulged.

Both the Commission and the national authorities of the Member States who receive communication of agreements are enjoined by article 20 of the Regulation "not to disclose matters which have come to their knowledge through the application of the present Regulation and which, by their nature, are professional secrets."

Finally, an important problem under the Treaty and the Regulations is the relative jurisdiction of the Commission and the national courts. Article 9 of Regulation No. 17 provides that the Commission is given exclusive jurisdiction in respect of article 85(3). This raises two difficulties in respect of concurrent jurisdiction as regards articles 85(1) and 86 and as regards the nexus between paragraphs 1 and 3 of article 85.

On the subject of concurrent jurisdiction, paragraph 3 of article 9 provides that, as long as the Commission has not initiated any procedure pursuant to articles 2, 3, or 6, the authorities of the Member States shall remain competent to apply articles 85(1) and 86, even if the time limits for notification have not expired. Thus, if the Commission has initiated such action, the national authorities of the Member States are precluded from acting. The converse, however, is not true, in the sense that the fact that the national authorities have taken jurisdiction does not prevent the Commission from taking action. It would seem that in the latter case the national authorities should suspend proceedings, at least in cases where the Commission will consider also the exemption under article 85(3) upon notification of an agreement.

The issue of a negative clearance by the Commission will probably have considerable weight on a national court, but it will not be binding upon it. On the other hand, if the Commission should find a violation of article 85 or 86 and its finding is confirmed by the Court of Justice, this should have a substantial moral effect on a national court, even though it is not binding upon it. The nullity of an agreement, as in violation of article 85(1), may always be pleaded before a national court by a party to a civil action based on such agreement, even if

such an agreement has not, in the meantime, been notified to the Commission. But if subsequently the Commission issues a decision granting exemption under article 85(3), this decision will be binding on the court and may nullify a decision of the court declaring the agreement void. Therefore, it is expected that a court, confronted with a plea by a defendant that the agreement is void and informed by the plaintiff that the agreement has been notified to the Commission for the purpose of exemption under article 85(3), will doubtless suspend the case to wait for the decision of the Commission.

There is one exception to this: If the plaintiff failed to notify the agreement within the time limit fixed by the Regulations, the national court may, nevertheless, proceed to decide on the validity of the agreement because the decision of the Commission may grant exemption under article 85(3) only as of the date of the late notification and the court may declare the agreement null and void between the date of March 13, 1962, and the date of the late notification to the Commission. This strange result may be caused by the failure to notify the agreement to the Commission within the time limit fixed by the Regulation.

#### AGREEMENTS RELATING TO INDUSTRIAL PROPERTY

The above exposition purported to analyze the general structure of the Treaty provisions and of the procedure for their application under the Regulations. It is against this general picture that agreements relating to industrial property may now be considered.

Enterprises concerned in this class of agreements are faced with the following problems:

- (a) Must they consider that such agreements are subject to the prohibitions established by articles 85 and 86 of the Treaty?
- (b) Must they resort to the "negative clearance" procedure of article 2 of Regulation No. 17?
- (c) Must they defer notification in view of the optional dispensation from it provided for in articles 4(2) and 5(2) of this Regulation?
- (d) How far may such agreements, when prohibited under article 85(1) of the Treaty, be exempted under article 85(3)?

Each of these problems shall now be considered.

#### *Articles 85 and 86*

It is impossible to maintain the position that agreements relating to industrial property are outside the purview of articles 85 and 86 of the Treaty simply because it is the nature of industrial property

to create exclusionary privileges and therefore restraint of competition. The two fields are not incompatible. Conflict arises when industrial property rights are used beyond their legitimate scope. The question is rather one of boundary: where does the patent or trademark privilege end and where does the unlawful restraint begin.

Nor does article 36 of the Treaty permit such an interpretation, because it authorizes import restrictions when required for "the protection of industrial and commercial property rights." This recognizes the prerogative of owners of such rights to exclude products which infringe *these* rights only. Moreover, this provision is qualified in that "such prohibitions or restrictions shall not constitute . . . disguised restrictions of trade between the Member States." This qualification is broad in its purpose and may be deemed to be an indirect reference to articles 85 and 86.

Furthermore, article 4(2)(ii)(b) of Regulation No. 17, in dispensing from notification, without prejudging validity, the class of agreements relating to industrial property, is a clear proof that such agreements are governed by articles 85 and 86.

The only thing that can be said, then, about such agreements is that the Treaty does not purport to affect the national law of the Member States and the provisions of other international treaties (as provided for in article 234) which grant and guarantee the existence and exercise of industrial property rights and the exclusionary privileges inherent thereto; from which it follows that in considering agreements between enterprises relating to industrial property, under articles 85 and 86, the existence of these inherent monopolies must be taken into account.

#### *Article 2 of Regulation No. 17*

If consideration of the agreement determines that a doubt exists whether it comes under the prohibitions of article 85(1), should the interested parties apply only for a "negative clearance" under article 2 of Regulation No. 17 rather than notify this under articles 4 or 5? The declaration provided for in article 2 is not a decision by the Commission that a particular agreement submitted to it is not prohibited under article 85(1) of the Treaty. It is merely a declaration that the Commission, in the light of the facts brought to its knowledge, does not propose to intervene by taking action against this agreement.<sup>20</sup>

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<sup>20</sup> The Commission when called upon to give a negative clearance under article 2 of Regulation No. 17 does not proceed itself to a verification of the facts, as it does when an agreement is notified under articles 4 and 5 for exemption under article 85(3) of the Treaty. The Commission, on the basis of the application filed and the agreement submitted to it, may determine to reject the application and notify the applicant that it

If the circumstances change in the future or if new elements are brought to the attention of the Commission as a result of a complaint or information by an interested party, the negative clearance loses its effect. Moreover, the issue of the invalidity of the agreement may always be raised in any case where this may be relevant; for instance, in the case where a licensee under the agreement refuses to pay the royalties provided for in the agreement alleging that such agreement is null and void as prohibited by article 85(1). Any court before which this issue is raised may decide without any regard to the declaration issued by the Commission under article 2.

Because of this, it would appear that the negative clearance procedure should be followed only in cases where the agreement appears unobjectionable and the interested parties desire to have additional assurance on this.<sup>21</sup>

#### *Articles 4(2) and 5(2)*

Should notification of the agreement be deferred because the interested parties deem it to be dispensed from notification as included in the exemption of article 4(2)(ii)(b), *i.e.*, it is an agreement which imposes limitations within the exercise of a right of industrial property? The significance of this dispensation from notification has been explained above. An error with respect to the question whether dispensation from notification is applicable to the particular agreement may have serious consequences by depriving the parties concerned of the benefits of retroactivity of the Commission's decision and by the exposure to fines for conduct under the agreement. The significance of the failure to notify within proper time becomes particularly clear when the issue of the validity of the agreement is raised in a court proceeding in a Member State. If the licensee refuses to pay royalties under a patent or trademark agreement or deals with know-how furnished by the licensor contrarily to the agreement alleging that the

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proposes to do so. It will give such an enterprise an opportunity to be heard. It will not publish the decision of rejection. If the Commission determines to grant the negative clearance, it will publish the essential content of the application and invite interested third parties to present their views. If no objections are made by such third parties, the Commission will grant the application.

<sup>21</sup> Mr. Schumacher in his lecture, referred to in note 19 *supra*, suggested that the procedure for negative clearance may particularly be resorted to in respect to new agreements, since parties may be desirous to know promptly whether such an agreement is prohibited or not, and the Commission will give a much quicker declaration under article 2 than under article 6 of the Regulation.

See also Response of the Commission to the question propounded to it by Mr. Deringer in the European Parliament as published in *Journal Officiel*, August 24, 1962, at 2135/62.

agreement is void, the court can only decide whether the agreement is prohibited under article 85(1). It has no power to hold that although it is so prohibited, the agreement nevertheless is exempted under article 85(3). Only the Commission has power to decide concerning such exemption and the Commission can only so decide when the agreement has been notified to it.

It should be noted also that the dispensation from notification concerns restrictions in industrial property agreements which constitute only "limitations in the exercise of the rights" in industrial property. A question of interpretation of these terms arises.

In this connection, a comparison first may be made with the German Act of 1957 against Restrictions of Competition. This Act, after dealing with restrictive agreements in general, has a special section 20 on agreements relating to patents, designs and trademarks, and section 21 on those relating to know-how. Section 20 prohibits and declares invalid such agreements only "if they impose upon the acquirer or licensee any restrictions in his business conduct which go beyond the contents of the said privileges." The provision then goes on to indicate which restrictions are not deemed to go beyond the contents of the privilege, or even though they may go beyond, they are nevertheless permitted because of an accepted policy not to discourage such agreements in view of the public interest involved in enabling industrial property to be put to a wider use in the community. Thus, "restrictions pertaining to the type, scope, quantity, territory, or exercise of the privilege shall not be deemed to go beyond its contents."

It is submitted that the words of article 4(2)(ii)(b), "the exercise of these rights," are not *équivalent* to the words "the contents of the privilege" in section 20 of the German Act. The words *contents* and *exercise* convey entirely different meanings. *Content* is what is comprised or included within the legal framework of the right. *Exercise* is the act of practicing or of performing the functions of the right. Certainly, the further statement in the first paragraph of section 20 of the German Act that "restrictions pertaining to the type, scope, quantity, territory or exercise of the privilege are not deemed to extend beyond its [the privilege's] contents" must be deemed to be included in the meaning of the terms "exercise of these rights" in article 4(2)(ii)(b).

Since the terms "in the exercise of these rights" go beyond the terms "the contents of these privileges" in the German Act, it would seem that any restrictions which have a real *rapprochement* with the right involved (patent, trademark, design or know-how) or are normally and directly related to the exercise of the right involved should be

deemed to be covered by the provision of article 4(2)(ii)(b) of Regulation No. 17.

It should follow from this that the restrictions referred to in the second paragraph of section 20 of the German Act should be deemed to be the kind of restrictions which are included in the terms "limitations in the exercise of the rights" of article 4(2)(ii)(b) of the Regulation. These, under the German Act, are:

- (1) restrictions imposed upon the acquirer or licensee in so far and as long as they are justified by any interest of the seller or licensor in the technically unobjectionable exploitation of the matter protected by the privilege;
- (2) obligations of the acquirer or licensee with respect to the prices to be charged for the protected article;
- (3) obligations of the acquirer or licensee to exchange experiences or to grant licenses for improvements or related inventions if these correspond to reciprocal obligations of the patent owner or licensor;
- (4) obligations of the acquirer or licensee not to challenge the protected privilege;
- (5) obligations of the acquirer or licensee relating to the regulation of competition outside the areas of applicability of this law;

it being understood, however, that item (5) would relate to a restriction in the exercise of the right outside the Common Market.

Accordingly, an agreement relating to industrial property rights which contains restrictions of this type, deemed to be restrictions "in the exercise of the rights," are dispensed from notification and the enterprises concerned are not required to notify such agreements for the purpose of obtaining a decision of the Commission granting the benefits of article 85(3). This is, of course, subject to two conditions:

- (a) that there is no other type of restriction in the agreements which goes beyond the terms of article 4(2)(ii)(b); and
- (b) the enterprises concerned do not care to have the benefit of article 7 of the Regulation, *i.e.*, the possibility of amendment of the agreement, as may be required by the Commission, with respect to any restriction objectionable to it. If they do wish to have the benefit of article 7, then notification of the agreement should be made prior to January 1, 1964, as article 7 explicitly requires in respect of agreements dispensed from notification.

*Article 85 (1) and 85 (3)*

We are now reaching the final problem of the application of the prohibitions of article 85(1) of the Treaty and the exemption under article 85(3) to agreements relating to industrial property. These are ordinarily and predominantly license agreements. There may be agreements of pure transfer of patents or trademarks or sale of know-how, but these are usually only between a parent and a subsidiary or incidental to investment or the creation of a joint venture enterprise. In so far as they may contain restrictive clauses, they may be grouped together with what are commonly termed license agreements.

The primary motivation of these agreements at the present time differs from that during the years immediately following the end of World War II. Quota restrictions, prohibitions of import licenses, foreign exchange difficulties and high tariffs made it necessary then to resort to license agreements in order to permit an enterprise to make money from the exploitation of its industrial property rights in foreign markets. These motivations still exist. However, in the Common Market countries at the present time where trade restrictions are gradually disappearing as between Member States as well as between Member and non-Member States, the reasons for the conclusion of such agreements may be quite different: a more efficient division of labor, sources of supply of materials and labor, differences in cost of production, taxation differences, exploitation of industrial property and immunities from competition.

Articles 85 and 86 of the Treaty are not concerned with these motivations, except in so far as their object or result is to restrain trade between Member States. Certainly these Treaty provisions did not intend to confide in the institutions of the European Economic Community the right or responsibility to pass upon, or create a substitute for, the judgment of the parties as to whether the agreements are wise or unwise from the business point of view, or whether they take undue advantage economically of any of the parties to the agreement.<sup>22</sup> This, of course, hardly needs mentioning except to underline the fact that the Treaty has not entrusted the Commission with any power of *planning* the economic structure of the Common Market. On the contrary, the object of the Treaty is to create the general legal and economic framework within which private enterprise may move freely to the accomplishment of its economic ends.

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<sup>22</sup> As Mr. Justice Brandeis put it in *Chicago Board of Trade v. United States*, 246 U.S. 231, 238 (1918): "Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition."

Article 85 of the Treaty comes into consideration when enterprises by their agreements or their conduct may restrict competition between Member States, no matter how lacking in mutuality or unwise the agreements may be for the particular parties; and article 86 when there may be involved an abuse of dominant position within the Common Market, no matter how dominant the position of an enterprise may be. It is in this framework that industrial property agreements or practices may be considered.

The prohibitions of article 86 may be quickly dismissed with regard to this branch of agreements. Very rarely could an enterprise or enterprises be thought to possess such a dominant position in the Common Market so that its abuse may be struck down under article 86. Conceivably, of course, there may be a case of a really dominant effect of a patent (rarely, if ever, of a trademark, design, or know-how) so basic that it affects a large segment of industry in the Common Market. The near totality of patents in the present state of technology relate to improvements or refinements of industrial production and abuse of the economic power of such patents is inconceivable. Furthermore, "abuse of monopoly" in a patent is eliminated by generally accepted correctives in the Member States of the Common Market consisting in compulsory licenses for reasons of public interest or for failure or insufficiency of working.

Article 85 involves two inquiries with respect to industrial property agreements: to what extent the prohibitions of paragraph 1 of article 85 may come into question, and when the prohibitions may be justified under paragraph 3 of that article. The first query will be considered in reviewing the nature of these agreements and particular clauses. The second calls for a closer look into the two positive and two negative requirements of article 85(3).

It will ordinarily not be difficult to maintain that industrial property agreements generally satisfy the two positive requirements. It is in the nature of industrial property to contribute to the improvement of the production or distribution of goods or to promote technical or economic progress, and therefore agreements relating to industrial property achieve this requirement. It is to be noted, in this connection, that improvement of production and technical progress are referred to disjunctively. A patent license agreement may of necessity promote technical progress within the meaning of the provision even if it does not also improve the production or distribution of goods, and the latter is therefore not necessary.

Also, it is in the nature of such agreements to obtain for users or consumers an equitable share in the profit resulting from such improvement of production or distribution or the promotion of technical or



economic progress. This does not mean necessarily a lowering of the price of goods. An improvement of quality, a quicker delivery or a better service through the increase of the number of suppliers may likewise be a sufficient benefit to the consumer resulting from the restraint.

The two negative requirements for the application of article 85(3) are that the agreements relating to industrial property

- (a) neither impose on the enterprises concerned any restrictions not indispensable to the attainment of the above objectives;
- (b) nor enable such enterprises to eliminate competition in respect of a substantial proportion of the goods concerned.

It is interesting to compare these provisions with paragraph 3 of section 20 of the German Act. This provides that the Cartel Authority may approve an agreement imposing restrictions on the business activity of the licensee exceeding the scope of the patent protection:

. . . if the freedom of economic action of the licensee or any other enterprise is not unfairly restricted, and if competition is not substantially restrained through the restrictions involved.

The last phrase of this provision finds its counterpart in negative requirement (b) of article 85(3) in introducing the element of substantiality of the trade which is being restricted. This is considered from the point of view of trade between the Member States.

The real difficulty in the provisions of article 85(3) is negative requirement (a), and particularly the word *indispensable* therein, which is a hard word. There is some question whether this means the same thing as the word *unfairly* in the above quotation from paragraph (3) of section 20 of the German Act. Rather the true meaning may be gathered by asking the opposite: Could the attainment of the objectives of improvement of production and distribution of goods or the promotion of technical and economic progress contemplated by the agreement be accomplished without the particular restriction in question? If the answer is in the negative, then the restriction is an indispensable one.

Having thus laid the basis of the application of articles 85 and 86 of the Treaty to industrial property agreements, it may be possible to proceed to consider how vulnerable these agreements may be with respect to their provisions.

In this connection, it may be first noted that such agreements may be of two general kinds: those that deal with such rights in themselves without any explicit restrictions, and those that transfer or license such rights and are coupled with explicit restrictions. For purposes of

simplification, it is proposed to consider agreements relating to patents; those involving trademarks; and those concerned with know-how.

#### PATENT AGREEMENTS

Agreements relating to patents without explicit restrictions, for instance, an agreement by the foreign owner of a patent in Germany granting to a German firm the exclusive right to make, use and vend the subject matter of the patent in Germany only, is no more than a statement of the inherent exclusivity of the patent grant under the German law. It should follow also that the owner of patents in each of the six Member States of the Common Market may grant exclusive licenses to separate firms in each of the six States under the patent in each. Such a bundle of exclusive territorial licenses may affect trade between Member States in the subject matter of the patent, but the territorial restriction is not the object or result of the agreements, but rather a restriction inherent in the separate patent grants under the national law of each of the Member States. It is precisely the principal object of the project for the establishment of a European Patent Convention, promoted by the Commission of the Common Market, to abolish private frontiers created by such separate patent grants. But until such a system is set up and patent grants are issued for the whole of the Common Market, the above territorial allocation is an unavoidable consequence of the accepted jurisdictional limitation of patent rights.

Coming now to patent agreements with explicit restrictions, consideration may be given to the various kinds of such restrictions.

*Territorial restrictions.* These may be mere restrictions of the patent's inherent exclusivity or may go beyond it. The owner of patents in each of the six Member Countries of the Common Market may impose a covenant upon the licensee under the German patent that the latter shall not export to any of the other five countries. This may be an unnecessary covenant, but if it is imposed, questions may arise as to whether its object or result is to prevent competition between the Member States. This involves a consideration as to whether the scope of the patents in the other five countries is the same both with respect to the content of the privilege and the subject matter, and also a consideration of the validity of the other patents, or the position in case of the earlier lapse of such patents by its normal term or as a result of revocation or forfeiture.

On the other hand, if there are no patents in the other countries of the Common Market, the covenant not to export or sell in the other countries may be deemed repugnant to the prohibition of article 85(1). The question then will be whether it is justified under article 85(3).

Such justification cannot be the theoretical argument that the patentee, by virtue of his privilege under the German law, could refuse a license and therefore could make the license subject to such limitation. The answer to that is that the patentee is utilizing his bargaining power under the patent to impose a prohibited territorial restriction.

A covenant, on the other hand, by the licensor patentee not to make or sell the subject matter of the patent in the licensee's territory may be an inducement to the licensee to make the investment for the working of the patent, but may also be a peg on which to hang the restriction against competition between the State in which the license is granted and the other States of the Common Market in which the licensor operates. In any case, the restriction goes beyond the power of the patent and may even have a more anticompetitive effect than even if no patent existed at all in the particular country. Such an agreement calls for justification under article 85(3) of the Treaty upon notification to the Commission. The nature of the patent and of the market involved, the existence of competition between the licensor and the licensee before the agreement was concluded, the primary intent of the parties and the interest of the consumer may enter into the consideration of the restriction.

*Restrictions of type, scope, quantity or term of license.* These are the kinds of restrictions which the German Act considers as comprised within the contents of the patent privilege. Certainly, an agreement which licenses the manufacture only of the subject matter of the patent in Germany, but not the sale in Germany, is not subject to objection. The reason for such an agreement may be that the patentee prefers to handle, himself or through his own distribution outlets, the sale of the licensed product. Also, an agreement which permits the licensee only to make and sell a type of product covered by the patent, but not all products within its scope, should be unobjectionable. Finally, agreements permitting the licensee to manufacture a certain quantity only or limiting the license to a certain term of years and not to the whole term of the patent are within the scope of the patent right. All of these may affect trade between Member States but are restrictions inherent to the patent grant.

*Price restrictions.* Article 85(1) of the Treaty explicitly prohibits agreements consisting in "the direct or indirect fixing of purchase or selling prices." But, on the other hand, article 4(2)(ii)(a) of Regulation No. 17 dispenses from notification agreements between two enterprises only which restrict the freedom of one party to the agreement to fix prices in the resale of goods acquired from the other party. This indicates that in the case of vertical agreements between

two parties, the fixing of prices of resale is presumably valid. Thus, even though such a restriction on a patent licensee may go beyond the scope of the patent grant, it may be justified under article 85(3). This is particularly so if the patentee reserves the right to sell the patented product in the licensee's territory by importation from the other countries of the Common Market, and provided there are no other restrictions in the agreement exhibiting an intent to eliminate competition or restrain trade between Member States.

*Tying provisions.* Article 85(1) of the Treaty prohibits any agreement which makes it conditional upon acceptance by the licensee of supplies "which, either by their nature or according to commercial usage have no connection with the subject of such contract." In the case of a patent agreement, the imposition on the licensee of the obligation to purchase from the patentee components or materials which are not covered by the patent may be an improper extension and misuse of the patent monopoly. It is to be noted that the German Act against Restraints of Competition permits the patentee to impose such an obligation if it is necessary to ensure that the patented product is properly manufactured and exploited. For instance, if proper operation of certain machines covered by the patent requires certain supplies sold only by the patentee or of which he is the only manufacturer, the German Act upholds the tie-in clause. The opposite is the case if such materials or supplies are equally available in like quality from third parties. Under article 85(1), the introduction of the concept of "commercial usage" mitigates the prohibition and permits a tie-in clause even though it is beyond the scope of the patent monopoly. It further indicates that the clause may be justified under article 85(3) by showing what the commercial usage is. Another possibility of justification may exist when the restriction amounts to a minimal foreclosure as compared with the whole range of business alternatives open to competitors within the Common Market.

*Covenants not to contest validity of patent.* A covenant by a licensee not to contest the validity of the patent under which he is licensed is not within the inherent exclusivity of the patent grant. But it is not a restraint affecting trade between Member States so long as it is limited to the term of the agreement, and therefore, it is not an agreement prohibited under article 85(1). But if it goes beyond the term of the agreement or extends to patents under which the licensee is not licensed, it may have the result of preventing or restricting competition between Member States and it can be justified, if at all, only under article 85(3).

*Grant-back provisions.* The German Act does not prohibit "obliga-

tions of the licensee to exchange experiences or to grant licenses of patents involving improvements on or applications of the licensed patent insofar as such obligations correspond to reciprocal obligations by the patentee." Such an obligation under a patent license agreement may be deemed to be a limitation "in the exercise of the right" in the patent under Art. 4(2)(ii)(b) of Regulation No. 17. If the license concerns a basic patent and the improvement cannot be used without it, it may be argued that for the life of the patent the obligation of the licensee to disclose the improvement or license the use thereof to the licensor does not really amount to a restriction either of the licensee or of competitors. And even though the patent and the improvement are alternative solutions to the manufacture of the products or the application of the process, the obligation of the licensee may be justified if there is a reciprocal obligation on the patentee to disclose improvements to the licensee, or if the concerns involved are small firms, or the patents or improvements involved are of minor importance.

Certainly any obligation of the licensee to transfer to the licensor the whole right in the improvements or for all countries outside the licensed territory would not be justified.

An alternative clause giving the licensee a choice either to patent his improvements and then grant the licensor a royalty-free license, or else to transfer to the licensor the right to apply for the patents in the licensor's own name, should not be objectionable.

*Agreements not to compete.* Patent license agreements may contain a limitation on the licensee not to produce or distribute products in competition with the patented article. Such a restriction certainly goes beyond the scope of the licensed patent and is a restriction of competition prohibited under article 85(1) if it affects trade between Member States; for instance, if it is between a patentee of a non-Member State or of a Member State and an enterprise in another Member State.

Such a restriction might be justified under article 85(3) in very special circumstances; for instance, if the licensee is a joint venture enterprise in which the patentee has made an investment, and its object is to exploit the patent; or if the competing products involved are closely related to those covered by the patent so that the income from the royalty due to the patentee would be seriously affected by the production and sale of such competing products.

*Other situations.* The above discussion deals essentially with single patents licensed to single licensees. It is not proposed to deal with more complicated situations such as agreements for future patents, package licensing, cross licenses, patent pools, and the like. These gen-

erally, when affecting trade between Member States, may involve restraints which can only be justified under article 85(3) of the Treaty. The unqualified prohibitions of article 85(1) and the absence of any possible application of "rule of reason" or any "ancillary doctrine" in this paragraph of article 85 make it obvious that the only hope of exemption is through presentation of the case to the Commission by notification under the procedure of Regulation No. 17.

The refusal of the Commission to consider a restriction in a patent license agreement as a reasonable one under the tests of article 85(3) means that the agreement remains prohibited under article 85(1) and the particular clause is null and void under article 85(2). Whether the entire license contract falls depends on the national law of the particular country. If the license provides that the nullity of a particular clause shall not affect the contract as a whole, this would permit the construction that the parties intended to remain bound by it notwithstanding the nullity of the particular clause. Otherwise, the parties may have to litigate whether the contract remains effective on the ground that the particular clause is or is not of the essence thereof.

In any case, the Treaty itself does not encourage the creation of the doctrine of patent misuse in curbing monopoly fashioned by the courts in the United States. The law in the Member States of the Common Market does not recognize such a doctrine which strips the patentee of judicial protection of his property because of encroachment outside the boundaries of the patent.

#### TRADEMARK AGREEMENTS

In connection with agreements relating to licensing of trademarks, we again have two general categories: those which contain no explicit restrictions, and those which are coupled with explicit restrictions. The first category involves the inquiry whether there is a prohibited territorial allocation in the mere fact that a license is granted for one of the six Member States of the Common Market to a local enterprise, while the trademark proprietor retains full rights in the other five countries or licenses other firms separately in such other countries. The legality of such a transfer or license of a trademark for a particular State involves primarily a question of the trademark law in such country. It is this law which determines whether such a territorial assignment or license is valid.

But assuming such validity, to the extent that the assignment or license confers upon the assignee or licensee (if exclusive) a lawful power to exclude the owner or other licensees in other countries of the Common Market from use of the trademark in the particular country,

a territorial restriction may be accomplished without contractual restraint. Is this, then, an agreement prohibited by article 85(1) of the Treaty?

The answer depends upon whether, as in the analogy of a patent agreement without contractual restriction, the territorial restriction is the result of the agreement or is a restriction inherent in the separate trademark rights under the national law of each of the Member States. The answer is compelled by the generally recognized principle under national law as well as under the International Convention for the Protection of Industrial Property that trademark rights are territorial in character and depend for their existence on the law of the particular country in which they are claimed. It makes no difference in this connection that in some countries, such as Germany, a trademark right depends on registration and in others on prior use or knowledge of the trademark in the trade. In both cases, the recognition of title in the trademark is by the law of the particular country. Again, in support of this view, reference may be made to the fact that the Commission of the Common Market is sponsoring the adoption of a European Trade-mark Convention, the principal object of which is to abolish private frontiers created by such separate territorial grants of trademark rights.

The other kinds of trademark agreements are those that contain explicit restrictions on the trademark owner or the licensee. Such restrictions are:

*Quality control.* This is certainly unobjectionable. Control of the standards and quality of the products made by the licensee is a prerequisite to the validity of the mark under license. Any provisions for the participation of the licensor in the licensee's affairs limited to setting of standards, sampling, inspection, and the like, would be justified. If the position goes beyond that, by agreement or by practice, so as to control output or investment or marketing, it may be objectionable under article 85(1).

*Ingredients or raw materials control.* If, as a condition to using the licensor's mark, the licensee must buy manufacturing components from the licensor or sources under his control, the effect is to prevent competition with the licensor in the sale of such components or raw materials to the licensee. The licensor can only insist that the licensee meet quality specifications. A permissible exception is allowed if the trademark denotes a product made under a secret formula of the licensor.

*Export controls.* A provision in the agreement prohibiting export from the licensee's territory to other countries of the Common Market

does more than spell out the jurisdictional definition of the trademark. The protection of the trademark in the other countries is buttressed by explicit limitation. This appears to be prohibited by article 85(1). It is to be noted that article 4(2)(i) of Regulation No. 17 dispenses from notification intrastate agreements between enterprises in a Member State, provided they do not concern imports or exports between Member States. Such an agreement was involved in the *Bosch* case before the Court of Justice of the European Communities. While the court refused to deal with the facts of the case in view of the manner in which the case came before it on a question of interpretation of the Treaty, it nevertheless indicated that such an agreement appeared to be prohibited by article 85(1).

An agreement may not have an explicit prohibition on the licensee against exporting goods bearing the licensed trademark outside the licensed territory, but may provide that a licensor shall consider the use by the licensee of the trademark outside such territory as an infringement of the licensor's trademark rights in the other countries. Assuming, for instance, that the licensor has registrations for his trademark in all six countries of the Common Market and he licensed the use of his trademark in Germany only to a German licensee, would the above provision be proper?

National courts have refused to enforce territorial limitations under the trademark law on the contention that the trademark owner has separate territorial trademark rights in each country and may enforce such rights as against persons importing in a country goods upon which the mark has been affixed in another country by the proprietor. A decision of the Supreme Court of the Netherlands rendered on December 14, 1956, in the *Grundig* case held that "the owner of a trademark does not have the right by marketing his branded articles to establish limitations with regard to the distribution of his goods as, for example, exclusive jurisdiction in a certain territory and to regard noncompliance with such limitations as an infringement of his trademark rights."<sup>23</sup>

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<sup>23</sup> *Prins v. Grundig*, International GRUR 259 (1957). The German company, manufacturer of Grundig radio sets and registered proprietor of this trademark in Germany and the Netherlands, brought action for trademark infringement in the Netherlands against a local party selling such radios, which were obtained from German wholesalers at a lower price than that of the authorized Dutch distributor. The lower court dismissed the action on the ground that the plaintiff had exhausted his trademark rights with respect to the goods by placing them into regular channels of trade in Germany. The court of appeals reversed on the theory that the plaintiff had exhausted only his German trademark rights by selling the radio sets in Germany and that the unauthorized import into the Netherlands constituted a violation of the plaintiff's right to determine the manner in which he wished to enjoy his Dutch trademark rights. The Supreme Court



The Swiss Supreme Court in a decision rendered October 4, 1960, in the *Philips* case overruling, in effect, its own previous decisions to the contrary, followed the decision of the Supreme Court of the Netherlands. It stated that the trademark law does not grant the right to the trademark owner to set up territorial limitations for the sale and distribution of his products and to enforce such territorial limitations.<sup>24</sup>

The latest decision on this subject is the decision of the Court of Appeals of Frankfurt rendered February 2, 1962, in the *Maja* case.<sup>25</sup> The court made a very close analysis of the essence of a trademark right, the territorial principle and the scope of protection afforded by trademark law. It concluded that "it is not the purpose of the trademark law to supply the trademark owner, by means of the trademark, with a weapon for controlling the market." The trademark owner "exhausts his trademark right" by placing the goods in commerce in a country, and when the genuine goods, made by the owner or by another with his authority are imported in another country, he has no right to object to the importation or sale in such other country based on his separate territorial rights in the country of importation; nor, said the court, does such an invasion in the territory of an exclusive distributor constitute, in itself, an act of unfair competition, regardless of any damage caused to the distributor by that invasion alone.

In these recent cases, the trademark owner has claimed trademark

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sided with the court of first instance, holding that, while the plaintiff probably had a remedy in contract against the German wholesalers from whom the defendant obtained the sets and possibly a remedy of unfair competition against the defendants as being beneficiaries of the German wholesalers' breach of contract, it was not the purpose of the trademark law to empower the trademark owner to regulate the mode and channels of sale of the products bearing his trademark.

<sup>24</sup> *Philips A. G. v. Radio-Import G.m.b.H.*, 86 II B.G.E. 270 (1960). The defendant obtained Philips television sets in Germany, made by a German licensee of the plaintiff, and sold them in Switzerland at prices lower than those charged by Philips' Swiss subsidiary. It was the plaintiff's contention that the sale in Switzerland of German-made goods constituted an infringement of the plaintiff's Swiss trademark registration. The court held that the public understanding was that the name, Philips, as used in Switzerland, had come to identify the products of the Philips concern as a whole, and it added: "... [I]t is not within the contemplation of the statute to extend the right in a trademark to an independent and absolute property right which would be invoked by manufacturers to prevent all possible interference with business interests."

<sup>25</sup> Reported in "Aussenwirtschaftsdienst des Betriebs-Beraters," July 1962, at 203-206. In this case a Spanish soap manufacturer had its trademark, *Maja*, for soap registered in Spain as well as in Germany. It granted exclusive distributorship rights in Germany to a German importer. When another German importer purchased from Spanish wholesalers the *Maja* soaps manufactured by the Spanish plant of the owner and sold them at a lower price in Germany, the German exclusive distributor brought injunction proceedings under the German Trademark Act in the name of the Spanish trademark owner. The lower court upheld the action, but was reversed by the court of appeals.

infringement against an unauthorized importer based on his trademark registration in the country of importation. It is believed that the trademark owner would not succeed, even though the importer obtained the goods from a foreign licensee. The *Philips* case was such a case, and in the *Maja* case the court clearly indicated that it would make no difference whether the goods imported were made by the proprietor or under his authority.

On the same theory, the trademark owner could not successfully proceed against the licensee himself in another State, alleging that he is committing infringement in that State by using the trademark there, through direct importation, when the use authorized was only in the licensed territory. However, such act by the licensee in violation of the agreement may justify the licensor under national law to cancel the agreement or enable him to obtain a decree of a court in the State where the licensee is located, enjoining the licensee from violating the agreement. In such a case, however, the Commission of the Common Market may decide that the particular clause of the license is prohibited by article 85(1) as being, in effect, an attempt to enforce territorial allocation. Such a clause would be null and void without necessarily involving nullity of the contract as a whole, if it should be held, on the licensee's contention, that the clause is not of the essence of the contract. The licensor, however, may be able to justify this clause under article 85(3) on the ground that the standards and specifications or the presentation or get-up of the products made by the licensee in his licensed territory are different from those approved for the other countries of the Common Market and, therefore, there would be confusion of the public as well as serious injury to the trademark owner's goodwill.

*Price controls.* Article 85(1) specifically lists as a prohibited agreement one that contains direct or indirect fixing of purchase or selling prices. Article 4(2)(ii)(a) of Regulation No. 17 dispenses from notification agreements between two enterprises only, the sole effect of which is to restrict the freedom of one party to the contract to fix prices for the resale of goods. This does not necessarily mean that horizontal price agreements are prohibited while vertical agreements may not be. The legality of agreements dispensed from notification is always open to question. The safe course is to notify the agreement and seek exemption of the price fixing under article 85(3). It is possible that the licensor's involvement in generating the goodwill embodied in the mark may be argued to justify price maintenance.

The fact that the agreement does not fix the price of resale by the licensee but merely provides that the prices shall not exceed a

certain maximum, or that the licensee shall seek to maintain as low a price as possible and in any case not higher than a certain price, will not necessarily avoid the prohibition of article 85(1). Minima or maxima prices tend to become fixed prices. The Commission may consider the facts under article 85(3) and may justify the provision in a case where the licensor is genuinely interested in the widest possible consumption of a branded article embodying his goodwill and is seeking to bring about a lowering of prices in the territory.

*Selling controls.* A license agreement may provide that the licensee shall sell the products bearing the licensed trademark only to the licensor or to parties designated by the licensor, as for instance, the licensor's distribution channels. Such a restriction may be justified provided the facts are such that it does not distort competition by, for example, imposing this limitation on a former competitor. If the licensee remains free to produce and sell similar articles under marks other than the licensed trademark, the limitation may be justified. The agreement would then be in effect a manufacturing agency agreement although it may not have the features of a true agency relationship.

*Production controls.* A license agreement may require the licensee not to manufacture or sell products except under the licensor's trademark. This might be deemed to prevent competition and come under the prohibition of article 85(1) concerning agreements limiting or controlling production, markets, technical developments or investment. It will have to be justified under article 85(3). It may be excused because of the licensor's desire to promote the goodwill and value of his trademark; or because the licensor has communicated to the licensee valuable know-how and the restriction is ancillary to this grant; or because the licensee was not, prior to the license, a competitor of the licensor so that the agreement itself did not have the object or result of eliminating competition.

*Covenant not to contest validity of the licensed trademark.* Such a covenant for the duration of the agreement is certainly unobjectionable. Moreover, it is probably not prohibited even if it endures after termination or cancellation of the agreement. It does not in itself restrict competition in trade, after termination, between the licensor and the licensee. There is no public interest, as there is in a case of a similar covenant for a patent, in the invalidation of a trademark or registration moving from the licensee.

*Non-competition after termination of license.* An agreement may provide that the licensee shall not deal in competing products after termination or cancellation of the license. This is a restriction under

the prohibition of article 85(1), but may be justified under the facts of a particular case under article 85(3). Factors which the Commission will probably consider in passing on the restriction are that the licensor has granted to the trademark licensee valuable know-how which is unrecoverable, the duration of the agreement before termination, the extent of the investment made by the licensee as a result of the license and the extent of time during which the restriction endures.

#### KNOW-HOW AGREEMENTS

Regulation No. 17 implementing articles 85 and 86 of the Treaty is an international instrument recognizing the special property in know-how. The terms used in article 4(2)(ii)(b) of the Regulation are "manufacturing processes or knowledge relating to the utilization or application of industrial techniques." The terms used are broader than those of section 21 of the German Act of 1957 which applies the provisions of section 20 (so far as appropriate) to agreements involving the transfer or exploitation of "legally unprotected inventions, manufacturing processes, technical designs and other technological achievements . . . if such achievements constitute business secrets." The requirement of secrecy is not included in the provision of the Regulation.

For our purposes here, we shall use the convenient term "know-how." However, it is clear that this may mean different things, such as tangible information consisting in formulae, processes, designs or unpatented inventions; accumulated experience and skill of an intangible nature which can only be communicated by instruction; recorded information embodied in lists of materials, technical data or manuals which serve to solve production problems; or finally, advisory, technical or managerial expert guidance in the laying out of plants or machinery, and the like.

Of whatever kind, know-how is a valuable business asset for the acquisition of which enterprises are willing to pay a price, just as much as for a patent or a trademark representing a goodwill. Indeed, while there are many cases where know-how by itself may form the subject matter of a license agreement, more often it is associated with a license under patents or trademarks. But while in some cases the know-how may be usable only with the patent and is subsidiary to it, serving only to make more effective the use of the patent, in other cases the patent is of minor importance and serves only as a front for the know-how agreement. Similarly, in the case of a trademark and know-how agreement, the know-how may be merely secondary to the trademark license and in other cases the trademark license is an appendage to

the grant of know-how. These differences are material considerations in evaluating restrictions in agreements involving licensing of know-how.

In know-how agreements, it is important to distinguish between restrictions calculated to protect the know-how against unauthorized use or disclosure and restrictions granting immunities from competition. The former are analogous to covenants seeking to protect a patent against forfeiture or a trademark against invalidation. In fact, know-how, once transferred or communicated to a licensee, may be lost since it cannot be precisely traced or identified as the use of a trademark or patent and there is no effective way of withdrawing it from the licensee. Therefore, restraints on disclosure or misuse in themselves involve no antitrust problem.

Exclusivity in the grant of know-how to a licensee in a country of the Common Market is not in itself prohibited under article 85 of the Treaty since it is the exercise of the inherent right in the ownership of such know-how just as much as the grant of an exclusive license to work a patent or to use the proprietor's trademark. It is when this grant is coupled with explicit restrictions that article 85 may come into question.

If an agreement transfers or licenses patents or trademarks and at the same time know-how, explicit restrictions which are prohibited under article 85(1) and may or may not be justified under article 85(3) of the Treaty will not be dealt with differently because they include a grant of know-how. This is particularly so because there is no general recognition under foreign laws of a property right or statutory monopoly in know-how as there is in patents and trademarks. For purposes of analysis then, we may consider explicit restraints in agreements relating to know-how whether or not this is coupled with a license under patents or trademarks. On the other hand, the value of the know-how furnished to the licensee may be a material consideration in justifying a restraint under article 85(3), since in the absence of substantial value in the know-how furnished, the positive requirements of this article may be absent and the recitation of communication of know-how may then appear as a "cover" for naked restrictions of competition. It is to be expected, therefore, that the Commission will seek to be assured as to the value of the know-how, and as to the situation of the licensee before and after the transfer of the know-how. Thus, if the licensee was not an actual competitor of the licensor prior to the license, if the production of the licensee was substantially improved after the license, or if the restraints imposed are minor, the Commission will be more likely to justify the restraints imposed on the licensor or the licensee.

Specific restrictions in a know-how agreement may now be considered.

*Export restrictions.* A restriction on a licensee in a country of the Common Market not to export to the other countries of the Common Market is prohibited by article 85(1). It may be excused, however, under article 85(3) if the know-how has real value, if the restriction is not of long duration, if the market involved is not substantial and if there is a good competitive position in goods of a similar character.

*Price controls.* These are condemned under article 85(1) and would probably not be excused under article 85(3) in a bare know-how license unless possibly the licensor himself sells identical goods in the same markets and may claim that he has a legitimate interest in not being the victim of his own creature.

*Output or sales controls.* A covenant by the licensee to sell to certain types of customers only, or to manufacture only a specified line of products with the licensed know-how, or to use such know-how in specified plants only in certain countries of the Common Market may be condemned by article 85(1) and would require very cogent reasons for justification under article 85(3). Only proof of a substantial value of the know-how and of the fact that but for such know-how the licensee's manufacture would have been impossible may justify such restrictions.

*Non-competitive products.* A usual restriction in know-how agreements is to limit the licensee to the products for the manufacture of which the know-how is transferred. If the licensee has been engaged before the license in any other line of production and can still produce such products by methods and processes alien to the know-how received, the restriction may be justified. However, the restriction would not probably be excused if it extends to a period beyond the life of the agreement. Likewise, a restriction on the licensee requiring him to cease the manufacture of the licensed products with the know-how received after termination of the license would be struck down, unless it is limited to manufacture with the licensed know-how which has not fallen in the public domain with the fault of the licensee.

#### EXCLUSIVE DISTRIBUTOR AGREEMENTS

Related to agreements involving industrial property are arrangements under which a manufacturer appoints an exclusive dealer or distributor of his products in a particular country—in our case in a Member State of the Common Market. These are not, properly, license agreements, since the distributor does not manufacture the

products or use the trademark on products other than those of the manufacturer. He may receive instructions and information on merchandising, servicing and advertising of the products, but these are not what is ordinarily identified as know-how.

These arrangements are to be distinguished from agency agreements, where the agent acts for his principal and on the principal's behalf by obtaining orders to be filled by the manufacturer and for which the manufacturer bills the purchaser, while the agent receives a commission or other compensation. In these cases, it is the principal who determines the manner of conduct of his own business, and the fact that he uses an exclusive or sole agent to obtain orders does not involve a restriction contemplated by article 85.

Exclusive distributor agreements may be of two kinds: Those in which the manufacturer agrees to appoint the distributor as an exclusive distributor, in the sense only that no other distributor will be designated or appointed for the particular territory; and those in which the manufacturer agrees not to sell to customers or prospective purchasers in the territory of the exclusive dealer or distributor and not to allow other distributors to do so, the exclusive distributor agreeing not to sell to purchasers located in another country or to purchasers who may export to another country. The first category of agreements obviously is not objectionable under article 85(1) of the Treaty. They restrain only the manufacturer's freedom to select the channel of distribution of his products in the particular country. They do not affect trade between Member States or prevent or restrict free movement of goods within the Common Market.

It is difficult, however, to maintain that exclusive distributor agreements which restrict distribution of goods in one Member State of the Common Market and prohibit free movement of goods to the other Member States are not in violation of article 85(1) of the Treaty, in the light of its unqualified terms and in the light of the object of the Treaty to bring about the interpenetration of the markets of the Member States.

The Commission appears to have adopted this construction of the Treaty as shown by statements included in its Third (paragraph 143) and Fourth (paragraph 50) General Reports. It may also be noted that in the original draft of Regulation No. 17 as prepared by the Commission and which required compulsory registration of agreements, an exemption from notification was made with respect to agreements between two enterprises which had as their sole effect:

- (c) to oblige a supplier to furnish certain merchandise to a purchaser exclusively;

- (d) to oblige a purchaser to buy certain merchandise from a supplier exclusively; or
- (e) to institute exclusive representation for certain products or services of an enterprise.<sup>26</sup>

Regulation No. 17, as finally issued, omits any reference to exclusive dealer or distributor agreements in the exceptions from notification in article 4(2).

It is submitted that the question of the propriety of such agreements must be viewed under the provisions of article 85(3) of the Treaty. Mr. Schumacher in his aforementioned address to the Chamber of Commerce of Brussels<sup>27</sup> stated that the Commission is studying the question of a new Regulation concerning such agreements, and that the postponement of the deadline for notification of agreements between two parties to February 1, 1963, was motivated by the desire to afford an opportunity to the Commission to deal with this problem.<sup>28</sup>

In this connection, it may be noted that article 85(3) of the Treaty does not provide that its application can only be made by specific exemption granted by the Commission. This particular procedure was selected by Regulation No. 17. Conceivably, the Council of Ministers has the power, on the recommendation of the Commission pursuant to article 87 of the Treaty, to issue a separate Regulation making article 85(3) ipso facto applicable to certain types of agreements or under certain defined circumstances deemed to meet the tests of reasonableness of article 85(3). Indeed, article 22 of Regulation No. 17 provides that within one year from its effective date, *i.e.*, prior to March 13, 1963, the Council shall examine, upon the Commission's proposal, "the special provisions which could be made, in derogation from the provisions contained in this Regulation, with respect to the agreements referred to in articles 4(2) and 5(2)."

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<sup>26</sup> European Parliamentary Assembly Document No. 57, 1961-1962, at 41-42.

<sup>27</sup> See note 19 *supra*.

<sup>28</sup> In the *Bosch* case, *supra* note 9, the manufacturer Bosch and its exclusive Dutch agent, van Rijn, pointed out in their argument that the agreement had not been prohibited by the German Cartel Office; that far from preventing, restricting or distorting competition, the activity of sole agents tends to promote trade and competition; that by maintaining their own sales organization in different sectors of the market, together with advertisements, market research, maintenance of stocks and a repair and after-sales service, they were able to overcome regional barriers and achieve a larger production at a cheap rate. The Commission argued before the court that the restriction constituted a restriction of competition which tended to maintain within the Common Market the closed national markets for the products concerned, which was in contradiction to the fundamental objects of the Treaty to promote trade and open the markets. The German Government agreed with the Commission. It felt that the restriction tended to prohibit the sellers of Bosch products in the free use of products and to limit the ultimate consumer in the free choice of suppliers.



Exclusive dealer or distributor agreements are not ordinarily made with respect to goods sold in bulk. They usually relate to branded products and, therefore, are agreements coming under the general category of the exception of articles 4(2) and 5(2) of Regulation No. 17.

It is obvious that exclusive dealer or distributor agreements perform an economic function and have long been a normal way of organizing distribution and marketing of goods. Introduction of a new product in the Common Market does require the appointment of distributors who are willing to make the investment and effort to place the product on the market and develop sales for it by organizing channels of distribution and outlets, hiring a sales force, acquiring distribution equipment, developing publicity and advertising campaigns and, often, providing servicing facilities. An exclusive franchise has been the normal reward for willingness to invest, expend and develop proper efforts. Often this is the only practical way for a small manufacturer to introduce a new product in competition with an established line of a large manufacturer who, through his economic power, may dominate the market for a particular type of product. To strike down exclusive distributor agreements in such cases is to strike down small business and increase concentration of economic power.

Even with regard to large enterprises, the exclusive distributor agreement permits the development of small business. If the large manufacturer cannot control the marketing of his goods through independent distributors to obtain intensive distribution and competition against other brands, he will have no alternative but to take over distribution at all levels.

On the other hand, it is true that in some cases exclusive distributor agreements may insulate the distributors from competition among themselves and may distort the natural patterns of distribution, not only of the particular product but also of other product lines. They may also indirectly bring about price-fixing and differentiation of prices within the Common Market which may affect the Common Market's objective for a price-stabilization policy.

The question is whether a solution may be found in eliminating closed territories in the Common Market by permitting exclusivity, in the sense only of primary responsibility and primary organization of distribution in a Member State, so that distributors in one State may not invade the territory of another distributor but may be required to sell to willing purchasers from another State and may have no power to stop importation from another State which is not knowingly organized or encouraged by another distributor.

Even though no separate Regulation is issued by the Council on exclusive distributor agreements, the Commission should be willing to exempt under article 85(3) arrangements which do not, in fact, substantially affect trade between Member States.

### CONCLUSIONS

No attempt has been made here to discuss the procedure before the Commission, such as hearings, process of investigation, rights of defense, the role of the Consultative Committee, appeals before the court, imposition of fines and penalties, and the like. These relate to a general study of the Regulations and exceed the limited scope of this paper which is concerned primarily with the impact of the Treaty and Regulations on industrial property.

A comment may be made on the fact that the basic requirement of notification of agreements under Regulation No. 17 provokes a sense of irritation on the part of Americans. Our tradition of not requiring the filing of agreements with any government bodies is a fundamental one expressing our philosophy of antitrust regulation. But European countries, by and large, are committed to a philosophy of registration of agreements restricting competition. This is motivated by the view that the publicity attendant to registration tends to keep antitrust abuses in check, and also by a greater confidence than we have in the adequacy of quasi-executive or informal administrative handling of antitrust conflicts in preference to involvement in costly and protracted antitrust proceedings of the American pattern. In addition, there are few European experts in antitrust law with practical experience and there is a tendency in governmental bodies to look to economists rather than to lawyers for expert advice in this new field.

Quite a number of the officials of the Directorate-General of Competition of the Commission of the EEC are Germans, usually with experience in the German Cartel Office. Since the only law in the Common Market countries similar to the principles of articles 85 and 86 is the German law, it is natural that officials of the Commission are likely to be inspired by German thinking on antitrust law. This should be helpful in two respects: it may afford a basic legal background to draw upon in coming to grips with the principles of the Treaty and their implementation under Regulation No. 17; and it may insure a procedure and mode of application inspired by informal discussion and efforts at persuasion, which is the established practice under the West German Law Against Restraints of Competition of 1957.

This does not mean, of course, that the decisions or attitude of the German Cartel Office on agreements will have a controlling effect,

or even a sure guidance, on the decisions or attitude of the Commission in interpreting and applying the Treaty and the Regulation. As seen from the above analysis, the provisions of the Treaty do not conform to the German Act, and furthermore, the basic objectives of competitive freedom within a single State and within the Common Market may not lead to the same conclusions.

It is believed that the principles established by articles 85 and 86 of the Treaty are flexible and reasonable and the Commission and the Court of Justice are free to mold these plastic principles to the economic needs of the Common Market. It is economic motives that dominated the stipulations of the Treaty and these, it is believed, will determine the attitude of the Common Market authorities in their enforcement.

The writer also believes that the Commission will be slow in moving to imposition of fines and penalties in enforcing intentional or negligent violation of the Treaty prohibitions with respect, particularly, to agreements relating to industrial property. He believes that the Commission will make ample use of the powers given to it by article 7 of Regulation No. 17 to obtain voluntary elimination of objectionable restrictions and abandonment of questionable practices. The role of the Consultative Committee, whose advice the Commission must seek in the interpretation of the Treaty, is an uncertain factor, but it does mean that the Commission will not ignore the views of the Member States on the economic needs of the Common Market which are to be served.

It is still too early to forecast how the Common Market law will evolve, particularly with respect to the tests of reasonableness under article 85(3). In any case, this law is here to stay and it will develop mature jurisprudence just as such law has evolved under our statutes. The Court of Justice, which has already given evidence of high excellence, will have to do a pioneer work. Those of the officials of the Directorate of Competition in the Commission of the Common Market whom the writer has met give every evidence of being skilled and intelligent men, anxious to do well and dedicated Europeans. The only question is whether the Directorate has enough of them to accomplish the tremendous task before the Commission.

The duty of business enterprises is to help the development of a sound law by notifying their agreements and otherwise cooperating with the Commission, so that it may have a complete picture of the economic facts as disclosed by agreements and practices, and of their motivations and results. It is only by doing so that business will enable the Commission to apply the rule of reason to the dynamic economy arising in the Common Market.